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OFFICE OF THE GOVERNOR

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Senator Jack Donahue
Chairman
Commission on Streamlining Government
3840 Hwy. 22
Mandeville, LA 70471

Dear Senator Donahue:

I would like to thank you, once again, for the time, work and commitment you have demonstrated through your service on the Commission on Streamlining Government. The work of this body will be critical in evaluating the operation of state government, and determining strategies that reduce costs through efficiencies while providing critical services for our people.

As you know, our state's five-year budget outlook shows an estimated shortfall of almost \$1 billion in FY11 and nearly \$2 billion in FY12. This translates into approximately \$802 million in needed savings for the next fiscal year, excluding \$146 million, at a minimum, in recurring expenditure reductions needed in higher education.

While several factors contribute to our projected multi-year budget deficit, the most significant factor is this decrease in the state's federal health care funding for those using Medicaid. In October of this year, the state's Federal Medical Assistance Percentages (FMAP) rate will drop from 72 to 67.6 percent. The rate drops again from 67.6 to 63.1 percent in October 2010. The drop in the state's FMAP rate from 72 to 63.1 percent will cost Louisiana an estimated \$700 million, with the state seeing the full impact starting January 2011.

The dramatic decrease is due to a faulty federal formula that calculates all sources of income in a state. From 2005 to 2007, according to the Bureau of Economic Analysis, Louisiana's per-capita income is reported to have increased by 42 percent. This includes all sources of income, including temporary government assistance, such as federal recovery assistance administered after the severe 2005 storms, including Road Home and insurance payments.

In addition to FMAP reductions, the federal Centers for Medicare and Medicaid Services have published a final rule that will no longer allow Louisiana and other states to use the current method of calculating Disproportionate Share Hospital (DSH) payments. It is projected that the impact of this new federal rule will be a \$120 to \$160 million reduction in federal uncompensated care payments.

As you work to recommend ways to transition Louisiana's government into a more sustainable and efficient posture, the following are a few of the larger cost-drivers that have the most impact on our state's expenditures, for your consideration:

1. Medicaid: \$6.2 billion

The state budget for FY 2009-2010 reflects a total means of financing of \$6.27 billion for Medicaid. Of that amount, \$1.03 billion is directly allocated from the state General Fund. According to the Kaiser Family Foundation, Louisiana had the 19th highest overall expenditures in Medicaid in 2007 and has among the highest per enrollee expenses for the federal Medicare program. Despite this level of spending, the state has ranked 50th in United Health Foundation's State Health Rankings for sixteen of eighteen years and Louisiana ranks at the bottom of every other national comparison of health status and health system performance. Louisiana needs to better coordinate care for Medicaid recipients, improve health outcomes by catching and treating chronic diseases earlier and help rein in rising costs due to Medicaid fraud and overuse of expensive emergency room care. Louisiana has, in fact, submitted a waiver to restructure the Medicaid system through coordinated care networks. While approval of this waiver has been delayed as a result of federal health reform negotiations, a coordinated delivery system is of interest to several provider organizations that agree Louisiana must fundamentally reform its Medicaid program. DHH is in discussion with these groups to develop ways to enhance the existing CommunityCARE program through the potential creation of integrated networks to reduce unnecessary or duplicative care, increase access and improve health outcomes.

2. Minimum Foundation Program (MFP): \$3.2 billion

The state budget for FY 2009-2010 reflects a total means of financing of \$3.27 billion for the Minimum Foundation Program (MFP). Of that amount, \$2.93 billion is directly allocated from the state General Fund. We must ensure that MFP dollars are being spent at the local level to achieve our desired educational outcomes – increasing academic achievement for all students, reducing the number of children dropping out of school, and preparing an educated workforce. During the past legislative session, we championed a bill to make MFP funding more accountable and transparent, requiring the Louisiana Department of Education to annually publicize school-level expenditures and collect data showing how weighted funds are used to benefit intended students with special needs. We should continue to pursue measures that provide for greater efficiency and accountability in MFP dollars.

3. Higher Education: \$2.8 billion

While the Postsecondary Education Review Commission is working on reform initiatives to achieve efficiencies in the higher education system, it does seem appropriate for this commission to review the need for greater transparency in the usage of appropriated dollars within the system. For example, of the 87,905 Executive Branch full-time state employees, 45,776, or 52 percent, are not directly controlled by the administration or the Legislature through specific position appropriation but through submission to the Department of State Civil Service. The vast majority of these employees reside in the higher education system. The Commission should consider whether the same level of

transparency, accountability, and appropriated approval should be granted to all full-time state employees.

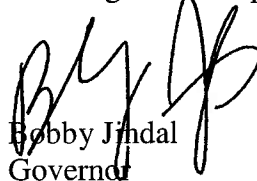
4. Statutory Dedications: \$3.7 billion

About \$3.7 billion, or 26 percent, of the total state funds in the budget are statutorily dedicated. Of the \$3.7 billion statutorily dedicated funds, about \$1.9 billion are constitutional and \$1.8 billion are protected by statute. The total number of dedicated funds is close to 400 (33 constitutional and about 358 statutory). While dedicated funding is sometimes necessary to address longstanding critical needs, it also locks in spending and locks out choices for budget savings. Progress in providing greater accountability to protected funds was made in the recent legislative session with the passage of SB 2 by Senator Chaisson, which increases flexibility for lawmakers in addressing statutorily dedicated budgeting matters, and SB 267 by Senator Michot, which establishes a greater level of transparency in state spending habits by providing a regular review of statutorily dedicated funds.

While these are just a few of the state's larger cost drivers, rest assured my office and all of my cabinet members stand ready to work side-by-side with you in achieving outcome-driven savings throughout state government. As I stated during the Commission's first meeting, your work cannot result in just another report to collect dust on the shelf. We must build on the momentum from this past legislative session to restructure state government by making real and lasting reforms that achieve savings by: 1) eliminating activities, entities, statutory dedications, and programs that are outdated, duplicative, or fall outside the scope of the results we are trying to achieve, 2) privatizing or outsourcing activities that yield greater savings and service to citizens, 3) initiating efficiencies through the integration of technology, and 4) improving the effectiveness and efficiency in the state government employment system by tying pay to performance and linking merit raises and promotions to an employee's performance on the job and not just the amount of time they have spent holding a position. While all four of these cost-cutting strategies are necessary for a comprehensive approach to streamlining government, the first strategy – program, entity, and spending item eliminations – is perhaps the most important.

Now is the time to drive the reforms needed to create a strong and sustainable state government that is accountable and effective. I am looking forward to your thoughtful and bold recommendations, and I stand ready to work with you to implement the changes needed to best serve our citizens and our state.

With regards and appreciation,



Bobby Jindal
Governor